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HOW SHOULD THE RAILROADS BE RETURNED?

AN ADDRESS

BY

THOMAS DEWITT CUYLER

Chairman, Association of Railway Executives

DELIVERED BEFORE

THE AMERICAN ACADEMY OF SOCIAL AND
POLITICAL SCIENCE

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As I understand, the object of this meeting is to present to the Academy the various plans that have been submitted for the regulation of the railroads when they are returned to their owners on January 1, 1920. It is to be assumed that the roads will be returned then, as announced by the President in May, last. I have recently received advices from the Director General of Railroads that he has no reason to believe the President will change his mind and that the corporations can expect to receive back their properties on that date.

PUBLIC OVERWHELMINGLY FAVOR RETURN OF ROADS

When the roads passed under Government control on January 1, 1918, the general assumption was that the great issue to be determined would be as to whether they would remain per-

manently under the control of the Government, through public ownership, or whether they should, under proper regulations, return to their owners. For reasons that need not be entered into now, that is no longer an issue.

Overwhelming public sentiment demands that they shall be returned to their owners, and the only issue is under what plan that return shall be made. A census of the press of the country has recently been taken by the Association of Railway Executives, of which I am Chairman, and 83 per cent. of the 6000 editors answering the questionnaire have stated that the public sentiment in their communities is opposed to Government ownership and in favor of the return of the roads to their owners. This would seem to settle the question for the present and I am quite convinced from a somewhat familiar knowledge of the situation that the only issue before the present Congress is as to the form of return.

EXECUTIVES' PLAN—TRANSPORTATION BOARD SUGGESTED

Now there have been numerous plans submitted. The plan submitted by our Association proceeds on the American principle that private initiative and enterprise must be preserved and that a fair return must be made to those who own the properties. We have in our plan provided for what

is known as a Transportation Board. The plan as first submitted to the Senate Committee, in place of this Transportation Board, suggested a Secretary of Transportation with a seat in the Cabinet. We found, however, that public sentiment opposed the creation of an additional Cabinet position, so the plan has been altered to provide for this Transportation Board, composed of three Commissioners who shall enjoy a liberal salary, whose term of appointment shall be a considerable period of years and who shall be nominated by the President and confirmed by the Senate, the object being to obtain men of the very highest character and ability for these important positions.

DUTIES OF THE BOARD—STATUTORY RATE-MAKING RULE

It shall be their duty to keep themselves informed of the transportation needs and facilities of the country and from time to time certify to the Interstate Commerce Commission the amount of earnings necessary to enable the roads to provide adequate facilities to maintain their properties, to meet their operating expenses, their dividends and the interest on their indebtedness, with a sufficient margin over these minimum requirements to attract new capital for the future needs of the railroads.

This is to be a fixed statutory rule of rate-making, binding alike on the Transportation Board and the Interstate Commerce Commission. It has been said by Interstate Commerce Commissioner Clark that this rule has been practically followed by the Commission in the past. We take issue with him in this statement. It cannot be the case, because, as the public well know, many of the roads have been hampered almost to the verge of bankruptcy by lack of adequate rates, and railroad credit has reached its lowest ebb. Whether in the opinion of Commissioner Clark and his associates, such a rule has been followed or not, it has not been done under any statutory provision. Under the rule proposed by the railway executives, there could be no excuse for the Commission not giving adequate rates for all the purposes indicated.

OBJECTIONS AGAINST THE FIXING OF A MINIMUM RETURN

It has been suggested in this connection by various plans, especially that of the United States Chamber of Commerce and what is known as the Warfield plan, that there should be a minimum return provided upon the property investment, and it is suggested that 6 per cent should be the lowest amount fixed. If 6 per cent. without any qualification could be fixed, probably most of the roads of the country could meet their require-

ments, but there are two objections to it. First, we are led to believe that Congress will never consent to give as high a fixed rate as 6 per cent., and if they do it will be accompanied by a maximum limitation upon earnings that will take from the successful and prosperous roads for the benefit of weaker roads, or in other words, establish a statutory rule that the property of one company shall be confiscated for the benefit of another.

CONFISCATION OF EARNINGS NOT WARRANTED BY LAW

We believe this not only to be unsound economically but absolutely illegal, and we are justified in this belief by the views of our counsel, as well as those of former Justice Hughes, who has recently rendered us a special opinion on the subject. It may be that some rule of taxation could be adopted of a character that would place a tax upon excess profits of roads that earned an undue amount, but that is a different proposition from the one contained in any of the above plans. There can be no such thing as an unreasonable rate for one road as against another road where all the shippers are treated alike as to rates; and if by reason of skillful management or judicious selection of territory one road makes more than another road under the same rates, that is no justification for penalizing achievement and success.

The Interstate Commerce Commission, under our plan, is charged with the duty of carrying out the rate policies as determined by the Board of Transportation and of performing all the other duties that are now vested in them. In order that the rate-making may be intelligently acted upon by the Board of Transportation, the country is to be divided into regions, with regional boards whose duty in the first instance shall be to advise the Board of Transportation of the needs and necessities of their particular sections.

FEDERAL POWER TO RULE—POOLING PROVIDED FOR

It is also proposed that power shall be given the Interstate Commerce Commission over State Commissions of suspending any State rate that will interfere with interstate rates or unfairly burden the general transportation facilities of the country.

It is provided that the roads in times of emergency, as during the Federal control, shall have the right to pool their traffic and to have joint terminal facilities for freight and passenger service. In other words, we propose the enactment of a law that, while providing for a proper and watchful Federal control of the roads for the protection of the public, will give such latitude to the roads as will enable them to meet the requirements of our great country.

My own judgment is that this is a sounder plan and, as I have said, a more American plan, than any other that has been devised and that under it the roads can prosper and the public be adequately, efficiently and economically served.

There is further provision made for Federal incorporation and consolidation. As to whether Federal incorporation shall be compulsory or not is an open question and minds differ. The plan as presented provides compulsory Federal incorporation if the roads are to enjoy the benefit of the Act, but the Executives have an open mind on this subject and are not at all insistent as to the compulsory feature. In regard to consolidation, they believe that ample provision should be made, under the supervision of the Interstate Commerce Commission and the Transportation Board, for consolidation of properties when it is clearly to the interest not only of the roads themselves but of the public.

There are of course many minor details for working out the Act but in the main, these are the salient features.

THE PLUMB PLAN--PUBLIC OWNERSHIP AT ITS VERY WORST

I have said that the question of public ownership is dead—at least for the present—but I am not unmindful of the plan presented so ably by

Mr. Plumb representing railroad employees, which in effect is public ownership and in my judgment of the very worst character. It is proposed that the roads of the country shall be bought by the public at a price that would really represent their junk value, and that then the roads should be operated by a Board under Government control, in which labor would have so predominant a control as to practically make railroad labor the real owner of the roads. To be sure, the governing board is divided into three classes of one-third each, but, due to inevitable political influences, the board would undoubtedly be under the control of the employee members, and the first step taken would be to increase further the financial advantage of employees. In other words, it is proposed that the rest of the people shall pay for the undue prosperity of some two millions of railroad employees—a very small minority of the whole people of the country.

WHAT MIGHT BE EXPECTED UNDER THE PLUMB PLAN

The labor leaders have frankly stated that the first consideration would be the wages of the employees, irrespective of the general conditions of the country or the wage paid labor in other occupations. Of course working rules would be adopted, many of them of a most onerous kind.

You have known what has been done under private operation where the labor heads have been able to force through all kinds of needless and expensive provisions, such as the extra and unnecessary man in the train crew and various other things that have been a burden to the extent of many millions of dollars per year to the railroads and to the public who pay the expenses of transportation. There would be but one end to such a plan. Sooner or later the indignant public would demand private ownership, as they are demanding it now, but meanwhile the country would have received the most expensive and appalling object lesson. The obvious results would be so disastrous that I do not believe the great body of railroad employees understand Mr. Plumb's proposition or would support it if it was squarely and intelligently put before them.

THE PEOPLE AS A WHOLE ARE ALIVE TO THE DANGER

I cannot do better than to repeat what I said before the House Committee on Interstate Commerce recently on the subject of the Plumb plan:

“I am unable to accept this proposal as creating an issue between railroad companies and the great body of employees. The workers on the railroads are fair-minded men, thoroughly patriotic and devoted, as their fellow citizens are, to our American institutions.

“In my judgment, they will never knowingly consent to dangerous experiments destructive of our institutions, under which we have grown to be the foremost nation of the world, and under which there have been established standards of happiness and well-being of which all of us have a right to be proud.

“I have complete confidence that a proposal as radical, as revolutionary of the accepted and cherished principles of our social and economic life, as the proposal made to you, will never, when it is fully understood, receive the sanction of the great body of our citizens, whether engaged in railroad work or in other occupations.

WOULD ESTABLISH CLASS POWER AND PRIVILEGE, NOT DEMOCRACY

“The people have already made a correct appraisal of the danger of the proposal, and have realized that it involves in essence the taking of the means of all the people, to acquire the railroad properties from their owners, and turn them over, not to all the people, not even to all labor, but to one class of labor—and that a comparatively small one—to manage and operate for their own advantage and without adequate responsibility to any public authority.

“It is declared by the proponents of this measure that it introduces democracy into industry.

Democracy is the rule of all the people. But this would be the rule of a very small minority. Instead of democratizing industry, it would establish in industry class power and privilege. It is a proposal to take a large part of the national wealth and set it aside for the benefit of relatively a very small class of our population, at the expense of all the rest.

“Railroad owners, while the immediate object of attack, are by no means chiefly interested in the issue which has thus been raised, although these owners, directly and indirectly, constitute a very large part of our population.

“The issue affects the entire people, for it constitutes an assault upon the very fundamentals of our institutions.

“As such it is the business of the entire public and as such it will be opposed by all these who are attached to American ideals and to American conceptions of government and social order.”

THE WHOLE FUTURE OF INDUSTRY IS INVOLVED

In conclusion, I have to say that I believe that this railroad issue is fighting out a principle that applies to every industry in every walk of life. The railroad situation is not solely at issue; all branches of industry or private enterprise are at issue. The sole question is as to whether we pro-

pose to stand by the principles that have built up this country and made it in days gone by so prosperous or whether we propose to seek new goals and new methods untried, or which, where they have been tried, have led to disaster and catastrophe.

I believe the American people are going to settle this question rightly, and I have abiding faith in the common sense of the American people where an issue is clearly brought home to them and they have intelligently considered it. The trouble with us—the American people—is that in the rush of the hour we do not think deeply and hasten to cross a bridge without due consideration; but there is every evidence that the people are now aroused and are now thinking deeply. Congress shows this in its attitude. For the first time in many years we find both Houses in a constructive frame of mind and both parties earnestly desirous of settling the railroad question on a reasonable and proper basis. I believe that the force of public opinion now aroused will settle this question rightly, and I hope for all time.